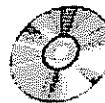


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'Throttling' Angers Netflix Heavy Renters

We first posted about this months ago, now it's being picked up by the mainstream media:

SAN FRANCISCO - Manuel Villanueva realizes he has been getting a pretty good deal since he signed up for Netflix Inc.'s online DVD rental service 2 1/2 years ago, but he still feels shortchanged. That's because the \$17.99 monthly fee that he pays to rent up to three DVDs at a time would amount to an even bigger bargain if the company didn't penalize him for returning his movies so quickly.

Netflix typically sends about 13 movies per month to Villanueva's home in Warren, Mich. — down from the 18 to 22 DVDs he once received before the company's automated system identified him as a heavy renter and began delaying his shipments to protect its profits.

The same Netflix formula also shoves Villanueva to the back of the line for the most-wanted DVDs, so the service can send those popular flicks to new subscribers and infrequent renters.

The little-known practice, called "throttling" by critics, means Netflix customers who pay the same price for the same service are often treated differently, depending on their rental patterns.

"I wouldn't have a problem with it if they didn't advertise 'unlimited rentals,'" Villanueva said. "The fact is that they go out of their way to make sure you don't go over whatever secret limit they have set up for your account."

Los Gatos, Calif.-based Netflix didn't publicly acknowledge it differentiates among customers until revising its "terms of use" in January 2005 — four

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months after a San Francisco subscriber filed a class-action lawsuit alleging that the company had deceptively promised one-day delivery of most DVDs.

"In determining priority for shipping and inventory allocation, we give priority to those members who receive the fewest DVDs through our service," Netflix's revised policy now reads. The statement specifically warns that heavy renters are more likely to encounter shipping delays and less likely to immediately be sent their top choices.

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